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Agriculture

Budget function 350 includes programs that support farm income, promote agricultural research, and enhance marketing opportunities for farmers. Almost all of the activities in this function are administered by the Department of Agriculture. Mandatory programs, which account for most of the spending in function 350, include revenue-support programs for producers of major crops (such as corn, wheat, soybeans, and cotton), crop insurance, and farm credit programs. Discretionary programs include agricultural research and extension, economic analysis and statistics collection, inspection of plants and livestock, agricultural marketing, and some international food aid. The Congressional Budget Office estimates that outlays for function 350 will total $30.8 billion in 2005, about double the 2004 total and the highest level since 2000.

Farm revenue-support programs, which extend through 2007 under the Farm Security and Rural Investment Act of 2002, account for most of the mandatory spending in function 350. Although the 2002 farm law provided for higher levels of income support for farmers, spending for those programs declined from $30.5 billion in 2000 to about $8.8 billion in 2004 because of higher crop prices. But declining prices this year will push spending for those programs up sharply—to an estimated $22.0 billion. In addition, the higher subsidy levels authorized in the Agricultural Risk Protection Act of 2000 increased spending for the crop insurance program from $2.3 billion in 2000 to about $3.2 billion in 2004.

Federal Spending, Fiscal Years 2000 to 2005 (Billions of dollars)

	2000	2001	2002	2003	2004	Estimate 2005	Average Annual Rate of Growth (Percent) 2000-2004	2004-2005
Budget Authority (Discretionary)	4.6	5.0	5.6	6.2	5.8	5.7	6.2	-2.2
Outlays								
Discretionary	4.5	5.0	5.2	5.6	5.8	5.9	6.2	2.0
Mandatory	31.9	21.3	16.8	16.9	9.7	25.0	-25.8	157.9
Total	36.5	26.3	22.0	22.5	15.4	30.8	-19.3	99.8

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350-01—Mandatory

Eliminate the Research Initiative for Future Agriculture and Food Systems

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-300	-200	-200	-200	-200	-1,100	-2,100
Outlays	-45	-135	-190	-220	-200	-790	-1,790

The Initiative for Future Agriculture and Food Systems is a competitive grant program designed to support research, extension, and education activities in new priority areas for U.S. agriculture. The program funds work on food genomics, food safety, human nutrition, alternative uses for agricultural commodities, biotechnology, and "precision farming" (precise monitoring and control of livestock as well as crop- or forest-management practices that focus on a specific area rather than an entire field or forest). The Agricultural Research, Extension, and Education Reform Act of 1998 created the initiative and provided mandatory funding for it. The program was reauthorized in the Farm Security and Rural Investment Act of 2002 and was mandated to receive rising annual appropriations—$120 million for 2004, growing to $200 million for 2007 and later years.

This option would eliminate the Initiative for Future Agriculture and Food Systems, reducing mandatory outlays by $45 million in 2006 and by $790 million through 2010. (The President's 2006 budget contains a similar proposal.)

One argument for ending the program is that federal funding for agricultural research may be merely replacing private funding and thus not filling a vital national need. In addition, for all but two years of the program's existence, the Congress has chosen to block its mandatory funding in the appropriation process and divert the budgetary savings to other purposes. Hence, if such research needs federal support, it may be able to receive that support through discretionary funding (which is subject to annual Congressional review) rather than mandatory funding. That is the approach used for another $2 billion or so of agricultural research funding elsewhere in the Department of Agriculture's budget.

The main rationale for keeping the initiative is that various factors—such as competition from foreign producers, increased attention to food-safety issues, and the growing pace of technological change in agriculture—have increased the need for research funding beyond what is available through traditional discretionary programs. More generally, the program may be necessary to improve agricultural productivity, environmental quality, and farm income.

350-02—Mandatory

Impose New Limits on Payments to Producers of Certain Agricultural Commodities

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Outlays	-97	-362	-267	-267	-240	-1,234	-2,206

The government supports producers of various farm commodities—including wheat, feed grains, cotton, rice, oilseeds, and peanuts—in three main ways. First, producers can receive direct payments based on their historical production. Those payments are not affected by market prices. Second, producers may be entitled to additional payments, known as countercyclical payments, that depend on market prices. Third, they can receive benefits from the marketing-assistance loan program, which essentially guarantees them a minimum price for their crop. Under that program, producers take out loans at harvest whose value is tied to the minimum price, using the crops from that harvest as collateral. If the market price falls short of the loan value in subsequent months, producers receive "marketing-assistance loan benefits" that amount to forgiveness of part of the loan. Payments—which are made by the Department of Agriculture's Commodity Credit Corporation (CCC)—are based on a specified amount per unit of eligible production (bushel or pound) on the farm. Hence, larger farms earn larger payments. Also, as a general rule, the higher the average market price, the lower are total farm program payments.

Since 1970, the amount that a producer can collect under those programs has been subject to a dollar limit. Currently, those limits are $40,000 for direct payments, $65,000 for countercyclical payments, and $75,000 for marketing-assistance loan benefits. However, the limits are "per person," with "person" defined to include individuals, corporations, and other legal entities. An individual producer may qualify for payments through up to three different farming entities, with the effect of receiving twice the nominal limits. For example, the producer could receive $40,000 in direct payments as an individual and $20,000 (up to a 50 percent share) in direct payments as an owner from each of two separate corporations producing agricultural commodities, for a total of $80,000 in direct payments.

This option would cut the current payment limits in half for two of those programs—to $20,000 per person for direct payments and $32,500 per person for countercyclical payments—while retaining the three-entity rule. It would leave the cap on marketing-assistance loan benefits at $75,000 per person but would modify the program to include generic certificates and loan-forfeiture gains as part of that cap.[1] Savings in CCC payments would total $97 million in 2006 and $1.2 billion over five years. Most of the savings would come from reducing the limit on direct payments; savings in the other types of payments would be smaller because of the higher payment limits. (The President's 2006 budget contains a proposal similar to this option.)

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Policy positions about payment limits, both pro and con, are heavily influenced by perceptions of fairness. Advocates of lowering the limits generally view the purpose of farm support programs to be keeping smaller, family farms in business, particularly those that are struggling financially. Payment limits are intended both to reduce overall federal spending on farm programs and to promote greater equity in the distribution of program benefits. Lower limits would not directly increase payments to small producers, but they would reduce the budgetary costs of the programs and the proportion of total payments going to large farms. Thus, supporters maintain, lower limits could help small farms indirectly, slowing the rate at which such farms are lost by reducing larger farmers' incentives to buy them to expand operations.

1. Generic-certificate gains are an alternative means of settling marketing-assistance loans whenever the market price is less than the loan rate. Although the final result is similar in value to marketing-assistance loan benefits, certificate gains do not count as cash payments for purposes of payment limits. Loan-forfeiture gains are the additional income that producers may derive, when the market price falls below the loan rate, from forfeiting their marketing-assistance loan (keeping the loan proceeds but turning over their collateral crop to the Department of Agriculture) rather than repaying the loan.

Opponents of this option argue that the farm programs are not intended or well suited to provide a more equal distribution of income among farm households. They also contend that payment limits undermine the competitiveness of U.S. agriculture in global markets. Some producer organizations have called for eliminating the limits altogether, saying that tighter restrictions on program benefits hurt the larger, more-efficient farming operations that are better able to take advantage of economies of scale in production. Payment limits also introduce disparities between commodities and regions of the country. Most of the savings from reducing payment limits would come from producers of cotton and rice (who are concentrated in the southern and western United States) because those crops have a relatively high value of program benefits per acre. A more proportional distribution of payments among farmers would require a significant change in the criteria for making program payments.

The August 2003 final report of the Commission on the Application of Payment Limits for Agriculture (which was established by the 2002 farm law) proposed that any major change in payment limits be delayed until debate over the next farm bill in 2007.

RELATED OPTION: 350-03

350-03—Mandatory

Reduce Payment Acreage by One Percentage Point

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays	-31	-107	-103	-107	-104	-452	-941

Direct and countercyclical payments to agricultural producers (described in option 350-02) are expected to make up around 70 percent of the Commodity Credit Corporation's (CCC's) total spending for program commodities—wheat, feed grains, oilseeds, cotton, rice, and peanuts—over the next 10 years. Those payments are calculated as 85 percent of a producer's base acreage times an assumed yield per acre times a payment rate per unit of production (bushel, pound, or hundredweight). In general, a farm's base acreage for each participating crop is calculated as the average number of acres planted with that crop between 1998 and 2001. Direct and countercyclical payments are made regardless of what is actually produced on the farm now; hence, those payments tend not to distort people's decisions about production. Program participants may also receive benefits for those commodities through marketing-assistance loans, which are paid according to actual production on a farm.

This option would reduce the eligible payment acreage for direct and countercyclical payments by 1 percentage point—from 85 to 84 percent. That change would lower the CCC's outlays for farm programs by $31 million in 2006 and $452 million over the 2006-2010 period.

Producers of commodities that are not covered by direct and countercyclical payments—such as wool, mohair, dry peas, lentils, small chickpeas, dairy products, and sugar—receive federal benefits primarily through marketing-loan gains, loan-deficiency payments, purchases, or marketing quotas. The 1990 law that established the 85 percent limit on payment acreage reduced program benefits for those other commodities (through loan origination fees or assessments) in an effort to distribute benefit cuts fairly. The payment-reduction provisions for those commodities were not reauthorized in the 1996 or 2002 farm laws, however, in part because they proved too difficult to administer. Reducing program benefits for those other commodities proportionately to the reductions in this option would lower CCC spending by an additional $4 million in 2006 and $22 million over the 2006-2010 period.

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The primary advantage of reducing payment acreage is that it would yield significant savings with a relatively small adjustment in program provisions. The spending cuts would affect all program participants in proportion to their expected payments instead of disproportionately affecting producers of any particular commodity. In contrast, spending reductions from changes in payment limits (the subject of option 350-02) would tend to have a particularly large impact on producers of cotton and rice.

The main disadvantage of this option is that it would focus cuts in commodity programs on the least market-distorting payments (direct and countercyclical payments) rather than on marketing-loan benefits. In addition, although reducing payment acreage would be relatively straightforward, achieving proportionate reductions in spending for other commodities would be more complicated.

RELATED OPTION: 350-02

350-04—Mandatory

Eliminate the Foreign Market Development Program

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Outlays	-24	-31	-35	-35	-35	-160	-335

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The Department of Agriculture's Foreign Agricultural Service (FAS) runs various programs to promote exports of U.S. agricultural products and provide food aid and technical assistance to other countries. In the Foreign Market Development Program, FAS acts as a partner in joint ventures with "cooperators," such as agricultural trade associations and commodity groups, to develop markets for U.S. exports. The program, also known as the Cooperator Program, typically promotes generic products and basic commodities, such as grains and oilseeds, although it also covers some higher-value products, such as meat and poultry.

This option would eliminate funding for the Foreign Market Development Program, reducing mandatory outlays by $24 million in 2006 and $160 million over five years.

The effectiveness of the Cooperator Program and the extent to which it replaces private spending for marketing efforts with public spending are uncertain. Supporters of ending federal funding for the program argue that cooperators should bear the full cost of foreign promotions because they directly benefit from those promotions. Supporters also argue that the program's services duplicate those of FAS's Market Access Program (described in option 350-05), which also works to create and expand foreign markets for U.S. agricultural products.

Opponents of this option argue that ending federal funding for the Cooperator Program could place U.S. exporters at a disadvantage in international markets because other countries provide support to their exporters. In regard to whether the program is duplicative, critics of this option contend that the Cooperator Program differs from other programs in part because it focuses on basic commodities and sales to foreign manufacturers and wholesalers. Moreover, some critics argue that the program helps the U.S. economy as a whole—not just the cooperators—by reducing the trade deficit. However, analysis shows that government efforts to support or subsidize exports have at best a temporary effect on the trade deficit, which is largely driven by the difference between domestic investment and domestic saving. Moreover, by distorting the allocation of economic resources, such efforts generally impose costs that exceed their benefits.

RELATED OPTIONS: 350-05 and 350-06

RELATED CBO PUBLICATIONS: *The Decline in the U.S. Current-Account Balance Since 1991*, August 2004; and *Causes and Consequences of the Trade Deficit: An Overview*, March 2000

350-05—Mandatory

Freeze Funding for the Market Access Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays	-3	-48	-60	-60	-60	-231	-531

The Market Access Program, run by the Department of Agriculture's Foreign Agricultural Service, provides funds to trade associations, commodity groups, and for-profit firms to help them build markets for U.S. agricultural products overseas. Under current law, funding for the program will increase from $140 million in 2005 to $200 million in 2006 and thereafter, the Congressional Budget Office estimates.

This option would freeze funding for the Market Access Program at $140 million for 2006 and subsequent years. That freeze would reduce mandatory outlays by $231 million over the 2006-2010 period. (The President's budget for 2006 contains a similar proposal.)

The Market Access Program promotes a wide range of products, including fruit, tree nuts, vegetables, meat, poultry, eggs, and seafood. About 20 percent of its funding goes to promote brand-name goods. The program requires varying degrees of cost sharing. For promotions of brand-name products, cooperatives or small private firms must pay at least 50 percent of the costs. For promotions of generic products, trade associations and others must pay at least 10 percent of the costs.

Some supporters of a freeze on funding argue that the Market Access Program does not warrant additional money because the extent to which it has developed markets or replaced private expenditures with public funds is uncertain. Others argue that taxpayers' money should not be spent to advertise brand-name products and that participants should bear the full cost of foreign promotions because they directly receive the benefits. Some proponents of this option note that the Market Access Program may duplicate the Foreign Agricultural Service's Foreign Market Development Program (described in option 350-04), which also provides funds for overseas marketing.

An argument against freezing funding for the Market Access Program is that in recent years it has targeted its funds toward small companies and cooperatives and reduced the share going to promotions of brand-name products. Furthermore, limiting the program could place U.S. exporters at a disadvantage in international markets because other countries support their exporters. On the issue of duplication, some opponents of this option maintain that the Market Access Program differs from other programs partly because it focuses on specialty crops, value-added products, and consumer promotions. In addition, some opponents of a freeze in funding argue that the program helps the U.S. economy as a whole—not just participants—by reducing the trade deficit. However, analysis shows that the trade deficit depends primarily on the gap between domestic investment and domestic saving. Thus, federal intervention to promote exports has no lasting impact on the deficit and distorts the allocation of economic resources.

RELATED OPTIONS: 350-04 and 350-06

RELATED CBO PUBLICATIONS: *The Decline in the U.S. Current-Account Balance Since 1991*, August 2004; and *Causes and Consequences of the Trade Deficit: An Overview*, March 2000

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350-06—Mandatory

Limit the Repayment Period for Export Credit Guarantees

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-147	-147	-147	-147	-147	-735	-1,470
Outlays	-79	-143	-147	-147	-147	-663	-1,398

The Department of Agriculture promotes exports of U.S. farm products through several credit guarantee programs administered by the Foreign Agricultural Service. Those programs protect exporters and banks in the United States against default on financing they provide to foreign importers and banks to cover purchases of U.S. products. Under those programs, if the foreign recipients of export credit fail to repay what they owe, the federal government makes up most of the shortfall.

The principal export credit guarantee programs for agricultural products are the Supplier Credit Guarantee Program and the Export Credit Guarantee Program; the former covers credit with repayment terms of up to six months, and the latter covers credit with terms of up to three years. Two other programs, the Intermediate Export Credit Guarantee Program and the Facilities Guarantee Program, cover credit with repayment terms of up to 10 years. Of those four programs, the Export Credit Guarantee Program accounts for most of the exports that are financed and most of the associated federal credit subsidy.

This option would limit federal guarantees of export credit to short-term credit—that with repayment periods of no more than six months. It would do so by eliminating the two programs with repayment terms of up to 10 years (the Intermediate Export Credit Guarantee Program and the Facilities Guarantee Program) and by restricting the repayment period for the Export Credit Guarantee Program to no more than six months. Those changes would reduce mandatory outlays by $79 million in 2006 and $663 million through 2010.

Supporters of this option argue that the credit guarantees of up to three years provided under the Export Credit Guarantee Program provide substantial benefits to participating foreign and domestic banks but have little if any impact on the overall level of U.S. agricultural exports. In addition, in ongoing multilateral trade negotiations, the United States recently indicated support for limiting the term of its credit-guarantee programs to no more than six months if other countries agree to eliminate their export subsidy programs. Furthermore, some advocates of this option argue that government programs that support or subsidize exports hurt the economy as a whole by distorting the allocation of economic resources and thus imposing costs that exceed their benefits. Moreover, a September 1997 report by the General Accounting Office (now the Government Accountability Office) found little evidence that those programs provide measurable income and employment benefits to the U.S. agricultural sector.

Opponents of this option say that despite U.S. support in trade talks for reforming the export credit programs, any changes in those programs should be contingent on parallel changes in the export subsidy programs of other countries. Other critics of this option maintain that the current longer-term credit guarantees reduce the cost of financing purchases and allow suppliers in the United States to increase sales in countries where they could not otherwise provide financing. In addition, some critics claim that export credit guarantee programs help the U.S. economy as a whole by reducing the trade deficit. However, analysis shows that government efforts to support exports have at most a temporary effect on the trade deficit, which is largely determined by the difference between domestic investment and domestic saving.

RELATED OPTIONS: 350-04 and 350-05

RELATED CBO PUBLICATIONS: *The Decline in the U.S. Current-Account Balance Since 1991*, August 2004; *Estimating the Value of Subsidies for Federal Loans and Loan Guarantees*, August 2004; and *Causes and Consequences of the Trade Deficit: An Overview*, March 2000